

Ms. Velazquez, Mr. Chabot, and members of the Committee, my name is Tom Shepherd. I am Chairman and CEO of The Shepherd Chemical Company and The Shepherd Color Company. These companies, based in Cincinnati, Ohio are fourth generation family owned businesses that manufacture metal based specialty chemicals and pigments. The reason we exist, as expressed in our Core Purpose, is to “Enhance People’s Lives.” We are a world-class company. We sell throughout the world. And we compete with companies from around the world. As a result of our success we are able to employ over 400 people, and thereby support over 400 families, in southwest Ohio and around the world.

I am pleased to speak before the U.S. House of Representatives Committee on Small Business hearing on “Examining Expiring Tax Incentives and the Needs of Small Businesses.” I will begin with a few words on expiring tax incentives and then use the balance of my statement to address the needs of small businesses with a specific focus on tax issues. I want to thank Ms. Velazquez and Mr. Chabot for this opportunity to speak before the Committee and thank as well, Deputy Staff Director, Jan Oliver, for her help in preparing to do so.

With a focus on innovation and customization the Shepherd family of companies relies on dozens of chemists and engineers to create new and novel materials for a wide variety of uses. Our products serve as, or contribute to the production of, petroleum purification catalysts, polymer cross-linking catalysts, additives for high pressure lubricants, gas generants for air bags, infrared reflective pigments for cool roof technology, cathode materials for lithium ion batteries, rubber adhesion promoters for radial tires, environmentally sound corrosion inhibitors, color systems for glass, metal and plastic architectural siding, additives for biodegradable plastics, sealants for energy efficient windows, and several other products. We manufacture things that make life better, safer, and healthier.

With our focus on engineered products and innovative technology we conduct a great deal of research and experimentation as a matter of course. As you might imagine, our Research and Development expenses are considerable. I encourage the Committee to endorse the continuation and strengthening of the Research and Experimentation Tax Credit. Such an investment of taxpayers’ money will pay large dividends in the form of high paying jobs and an improved quality of life.

As for the needs of small businesses, I refer to Aesop’s fable about The Goose that Laid the Golden Eggs.

A man and his wife had the good fortune to possess a goose which laid a golden egg every day. Lucky though they were, they soon began to think they were not getting rich fast enough, and, imagining the bird must be made of gold inside, they decided to kill it. Then, they thought, they could obtain the whole store of precious metal at once, but when they cut the goose open, they found it was like any other goose.

Like the couple in Aesop's fable, many in our government seem confused about the source of America's prosperity. It is healthy businesses, and healthy businesses alone, that generate the money for taxes, jobs, healthcare, business growth, reinvestment, charitable organizations, government, roads, security, regulatory agencies, environmental innovations, and so forth. While many in our government are wise enough not to go after American businesses with a hatchet, they seem to have no problem administering regular doses of poison, or making it easy for others to do so. Misguided legislators, regulators, trial lawyers, environmentalists, activist judges, and unions cannot keep poisoning us and, at the same time, expect us to perform our vital function, or even want to do so if we could. In the end, it is all Americans, in fact all humankind, that suffers as the true source of our prosperity dies off.

What do small businesses need?

1. We need efficient, cost effective transportation for our raw materials, finished products and people.
2. We need protection from thieves, vandals, terrorists, unscrupulous litigation, and unnecessary and onerous regulations.
3. We need free trade arrangements for both our incoming raw materials and our outgoing finished products.
4. We need responsible monetary policy that acknowledges the financial needs of small businesses.
5. We need tax policy that promotes capital investment and savings.
6. We need those in government to spend our money responsibly so that more of the money can be left with those who earn it.

Unfortunately, while we don't always get what we need from our government, we often get what we don't need, and what is harmful to our ability to compete around the world.

1. We get misguided regulations and subsidies that ignore both science and economics.
2. We get restrictions on energy production so that our employees can't afford to drive to work or heat their homes and so that our cost of natural gas is 2 to 10 times that of our foreign competitors.
3. We get pro-union legislation that encourages outsiders to interfere with our relationship with our employees and the way we run our businesses.
4. We get courts and laws that facilitate frivolous and unfounded lawsuits.
5. Specific to the topic of this hearing, taxes and small businesses, we get a tax system that, having taken nearly half of our earnings each year for our entire working lives, takes more than half of what's left over when we die. I am speaking of the estate tax. Not only is this unjust, it also depresses our ability to grow the business and the economy and provide new, higher-paying jobs. I will use myself as an example so as to explain the serious negative effects of this approach. Our policy at my family's companies is to pay wages and salaries consistent with the market. My salary, therefore, is typical within the industry for my role and responsibilities. However, because of the estate tax and my desire to

keep the business in my family when I die, the portion of my salary that is not used to pay taxes on that salary is needed to pay dividends for life insurance, the proceeds of which will pay the estate tax when I die. How do I take care of my family when my entire salary is consumed by taxes and preparation for taxes? By removing cash from the company, in the form of dividends, that might otherwise be invested in technology, growth and jobs.

Small businesses are one of America's greatest assets; they are the American Dream, the primary source of new jobs in America, and the creator of our strong middle class. Our estate tax, which will return to 55% of the value of the estate in 2011, leaves American small business owners with three options, all of which are bad for America. The first option is to use valuable resources and personal energy to create the plan and buy the insurance that will allow the business to stay in the family when we die, as I have done. Although this preserves the family business, it wastes valuable resources and depresses our ability to invest and grow. The second option is to ignore the pending estate tax and fail to prepare for it. This ensures that, upon the owner's death, the company will be wrenched from the arms of the family that built it. The third option is to sell the company before you die in order that you and your family can enjoy the fruits of your labors. However, both the second and third options risk the loss of jobs that so often follow these types of sales.

6. And further to taxes and small businesses, we get threats from prominent politicians that more burdensome taxes are coming. Representative Rangel has proposed discontinuing Last In First Out accounting, commonly referred to as LIFO. Under our current tax system businesses may choose among several methods as to how they will value raw materials for the purpose of calculating profits (revenue less raw material costs and other expenses equals profit). The LIFO method allows businesses to calculate profits using their most recent raw material purchase prices as opposed to their most distant prices. The LIFO method suppresses taxes at the very period that rising raw material prices make cash tight and increases taxes when declining raw material prices free cash up. Under this method, cash flow is steady, thereby encouraging long-term investment and business growth. On the other hand, the First In First Out method, commonly referred to as FIFO, does just the opposite. It increases taxes when rising raw material prices make cash tight and reduces taxes when declining raw material prices free cash up. The result is destabilizing cash flow fluctuations and dramatically increased business complexity. Congressman Rangel wants to eliminate the LIFO option. This is a bad idea for business and another indication that some in our government are confused about the source of our national prosperity.

ARGUMENT AGAINST PROPOSED LIFO TAX REFORM

99.3% Cobalt Prices
2003 to 2008

